

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name GRSD SEWER AUTHORITY	County BERRIEN
Fiscal Year End DECEMBER 31, 2005	Opinion Date MAY 5, 2006	Date Audit Report Submitted to State June 1, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) SCHAFER & LAYHER, PLLC		Telephone Number 269-983-0131	
Street Address 805 VAN BRUNT AVENUE		City ST. JOSEPH	State MI
Zip 49085			
Authorizing CPA Signature 	Printed Name MICHAEL W. LAYHER	License Number 21500	

GRSD SEWER AUTHORITY

**FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION**

December 31, 2005 and 2004

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of GRSD Sewer Authority
New Buffalo, Michigan

We have audited the accompanying financial statements of the GRSD Sewer Authority as of December 31, 2005 and 2004 and for the years ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements, referred to above, present fairly, in all material respects, the financial position of the GRSD Sewer Authority as of December 31, 2005 and 2004, and the changes in financial position and cash flows, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 2 through 5 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Schaffer & Layher". The signature is written in a cursive, flowing style.

Schaffer & Layher
St. Joseph, Michigan
May 5, 2006

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA

About the Facility

The GRSD Sewer Authority (the "Authority") was established by the Townships of New Buffalo, Lake Charter, and Chikaming, and the City of New Buffalo. The City of Bridgman was admitted under a separate agreement in 2004. The Authority was incorporated on October 13, 1971 as the Galien River Sanitary District (the "District"), under the provisions of Act 233, Public Acts of Michigan of 1955, as amended. The Authority is governed by a board comprised of six (6) members, with one (1) representative appointed from each of the five (5) constituent municipalities and one (1) independent member elected by the other five (5) members. The Authority was formed to operate, maintain, administer, and manage a sewage collection and disposal system pursuant to Act 185, Public Acts of 1957, as amended, for the benefit of the constituent municipalities.

The Authority operates a two (2) million gallon per day sanitary sewage treatment plant for its owner municipalities. The connected service population is approximately 13,500. The Authority is currently expanding its capacity to handle an additional 1.012 million gallons per day.

Financial Highlights

The Authority's total net assets at December 31, 2005 were \$15,265,301, of which \$13,772,243 was invested in capital assets. At December 31, 2004, net assets were \$15,140,173.

The Authority's total expenses were \$1,373,140, while total revenues were \$1,498,268 (\$1,396,834-operating; \$101,434-non-operating.)

Overview of the Financial Statements

This report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *supplemental information*. The basic financial statements include only one kind of statement as the Authority is a special purpose governmental entity and no reconciling items exist between the entity and a government-wide statement.

Government-wide statements and the fund financial statements are presented as one set as they both provide the long-term and short-term information about the Authority's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Financial Analysis of the Authority as a Whole

The following table represents condensed financial information about the Authority's financial position. Total nets assets increased by \$125,128 from 2004 to 2005 with nets assets of \$15,265,301 at December 31, 2005 and \$15,140,173 at December 31, 2004.

	<u>2005</u>	<u>2004</u>
Current Assets	\$ 1,142,170	\$ 1,091,339
Restricted Assets	500,000	5,435,494
Capital Assets	13,772,243	9,323,165
Total Assets	<u>\$ 15,414,413</u>	<u>\$ 15,849,998</u>
Current liabilities	<u>\$ 149,112</u>	<u>\$ 709,825</u>
Net Assets		
Invested in capital assets	\$ 13,772,243	\$ 9,323,165
Restricted for capital purposes	500,000	5,435,494
Unrestricted	993,058	381,514
Total Net Assets	<u>\$ 15,265,301</u>	<u>\$ 15,140,173</u>

The following table represents the condensed financial information about the Authority's revenues and expenses. The change in net assets was \$125,128 and \$177,904 for the years ended December 31, 2005 and 2004, respectively.

	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 1,396,834	\$ 1,288,434
Operating expenses	1,373,140	1,275,128
Operating income	\$ 23,694	\$ 13,306
Non-operating income	101,434	164,598
Change in net assets	<u>\$ 125,128</u>	<u>\$ 177,904</u>

Analysis of Financial Position

The current year net assets increased \$125,128, with a few significant factors affecting net assets during the year are discussed below:

- 1) Operating revenues exceed operating expenses by \$23,694, with an additional \$101,434 of non-operating interest income received.
- 2) The Authority's investment in capital assets had an increase of \$4,449,078 from \$4,594,332 of acquisition and construction of capital assets less \$145,254 of current year depreciation.

Results of Operations

The Authority increased operating income by \$10,388 over last year as a result of the following:

- 1) Operating revenues increased \$108,400 or 8.41% as a result of increased flows from the tributary governmental units and increased rates.
- 2) Operating expenses increased \$98,012 or 7.69% as the plant continues to manage those costs in the wake of rising natural gas and electrical rates and increased employee benefit costs, especially in the area of health insurance premiums. Management recognizes that control over year to year operating costs is essential to the long-term financial health of the facility. Efforts to control operating costs are ongoing.
- 3) Nonoperating interest income has significantly contributed to the Authority's overall revenue base. This is due to the large amount of dollars available from the conduit bond proceeds and capital contributions from the governmental units for the plant expansion project. Funding requirements for the completion of this project will continue to deplete the Authority's cash and investments, and also negatively impact future non-operating interest income.

Fund Expenditures Budget vs. Actual**Expenditures**

<u>Period</u>	<u>Original and Final Budget</u>	<u>Final Audit</u>	<u>Variance Audit vs. Final Budget</u>
December 31, 2005	\$ 1,452,163	\$ 1,373,140	\$ 79,023
December 31, 2004	\$ 1,392,500	\$ 1,275,128	\$ 117,372

Fund Expenditures Budget vs. Actual**Revenues**

<u>Period</u>	<u>Original and Final Budget</u>	<u>Final Audit</u>	<u>Variance Audit vs. Final Budget</u>
December 31, 2005	\$ 1,459,406	\$ 1,498,268	\$ (38,862)
December 31, 2004	\$ 1,298,738	\$ 1,453,032	\$ (154,294)

Original versus Final Budget

There were no changes or amendments to the original preliminary budget to the final budget.

Capital Improvements and Funding Requirements

Funding needs for capital improvements is a significant element in the Authority's financial plan. The Authority currently has an approximately \$9 million plant expansion underway, which has been fully funded through contributions from the constituent municipalities contributions and the issuance of conduit bonds. Ongoing funding for capital improvements will be generated from operating revenues and year-end reconciling amounts from the municipalities. The monies accumulated are being earmarked for capital projects. The project was completed in January 2006 and became operational.

Economic Factors and Next Year's Budget

The funding composition for the treatment, operation, and maintenance for the Authority consists of establishing rates charged to the governmental units and ultimately the ratepayers are customers of the water treatment plant. The separate governmental units are responsible for collecting their own charges from the residents and other users within their district.

The Authority's plan for budget monitoring includes review of the budget vs. actual expenses on a monthly basis to determine if financial goals are being met. If financial expectations are not being met, options to establish alignment include: 1) procedures to establish increased rates to governmental units and charges for certain services so that maintenance and operations can continue uninterrupted; 2) a reduction of certain services performed for the local units and a reduction in capital expenditures on infrastructure needs. With the limiting factor on financial resources being what the ratepayer is able to pay, raising rates needs to be closely monitored throughout the year.

Comparative Information

The financial report shows comparison data. The Authority expects to continue to present full comparative statements.

Contacting the Authority's Management

The financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. For questions about this report or additional information, contact the Authority at 10831 Kruger Road, New Buffalo, MI 49117.

GRSD SEWER AUTHORITY**STATEMENTS OF NET ASSETS
DECEMBER 31, 2005 AND 2004**

	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 559,789	\$ 372,777
Certificates of deposit	329,348	414,405
Accounts receivable	195,557	212,654
Due from other fund	54,240	87,538
Prepaid insurance	3,236	3,965
Total current assets	\$ 1,142,170	\$ 1,091,339
Restricted assets:		
Cash and cash equivalents	\$ 500,000	\$ 5,435,494
Capital Assets	\$ 13,772,243	\$ 9,323,165
Total Assets	\$ 15,414,413	\$ 15,849,998
Liabilities:		
Accounts payable	\$ 92,887	\$ 620,630
Due to other fund	54,240	87,538
Payroll taxes payable	1,985	1,657
Total Liabilities	\$ 149,112	\$ 709,825
Net Assets		
Invested in capital assets	\$ 13,772,243	\$ 9,323,165
Restricted for capital purposes	500,000	5,435,494
Unrestricted	993,058	381,514
Total Net Assets	\$ 15,265,301	\$ 15,140,173
Total Liabilities and Net Assets	\$ 15,414,413	\$ 15,849,998

The notes to the financial statements are an integral part to these financial statements.

GRSD SEWER AUTHORITYSTATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
DECEMBER 31, 2005 AND 2004

	2005	2004
Operating Revenues		
Sewer User Fees:		
City of New Buffalo	\$ 321,948	\$ 301,872
Chikaming Township	321,743	246,809
New Buffalo Township	107,996	125,409
Lake Charter Township	278,562	260,352
City of Bridgman	227,822	217,467
Weesaw Township	3,257	5,239
Other Fees:		
Waste hauling	71,214	61,286
Services rendered	64,292	70,000
Total operating revenues	\$ 1,396,834	\$ 1,288,434
Operating Expenses		
Salaries and wages	\$ 462,821	\$ 440,313
Payroll taxes	36,222	33,865
Employee benefits	249,763	210,255
Depreciation	145,254	143,472
Office supplies	1,801	3,138
Operating supplies	72,864	59,206
Professional fees	16,512	15,837
Legal	3,864	471
Board fees	4,620	3,300
Contractual services	53,995	47,591
Communications	15,991	18,304
Training and transportation	2,827	1,668
Insurance and bonds	62,775	69,792
Utilities	185,882	147,618
Equipment and sewer repairs	45,973	70,414
Vehicle repairs	6,788	5,787
Uniforms	4,648	3,690
Miscellaneous	540	407
Total operating expenses	\$ 1,373,140	\$ 1,275,128
Net operating income	\$ 23,694	\$ 13,306
Non-operating income (expenses):		
Sale of fixed assets	\$ 1,415	\$ -
Interest income	100,019	164,598
Total non-operating income (expense)	\$ 101,434	\$ 164,598
Change in net assets	\$ 125,128	\$ 177,904
Net Assets, Beginning of Year	15,140,173	14,962,269
Net Assets, End of Year	\$ 15,265,301	\$ 15,140,173

The notes to the financial statements are an integral part to these financial statements.

	2005	2004
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,413,931	\$ 1,399,291
Cash payments to suppliers for goods and services	(1,291,751)	(337,668)
Cash payments to employees for services	(462,821)	(440,313)
Net cash provided by (used in) operating activities	\$ (340,641)	\$ 621,310
Cash Flows from Non-Capital Financing Activities		
Contributed capital	\$ -	\$ -
Cash Flows from Capital and Related Financing Activities		
Payments for acquisition or construction of capital assets	\$ (4,594,332)	\$ (5,006,393)
Proceeds from sale of assets	1,415	-
Interest paid on loans	-	-
Net cash used in capital and related financing activities	\$ (4,592,917)	\$ (5,006,393)
Cash Flows from Investing Activities		
Decrease (increase) in certificates of deposit	\$ 85,057	\$ (11,960)
Change in restricted assets	4,935,494	4,191,588
Interest received on investments	100,019	164,598
Net cash provided by (used in) investing activities	\$ 5,120,570	\$ 4,344,226
Net Increase(Decrease) in Cash and Cash Equivalents	\$ 187,012	\$ (40,857)
Cash and Cash Equivalents-Beginning of year	372,777	413,634
Cash and Cash Equivalents-End of year	\$ 559,789	\$ 372,777
Reconciliation of Operating Income (Loss) to		
Net Cash Provided by (Used In) Operating Activities		
Operating income(loss)	\$ 23,694	\$ 13,306
<i>Adjustments to reconcile net income(loss) to</i>		
<i>net cash provided by operating activities</i>		
Depreciation	145,254	143,472
<i>Change in assets and liabilities</i>		
Accounts receivable	17,097	(110,857)
Prepaid insurance	729	24,145
Accounts payable	(527,743)	551,353
Payroll taxes payable	328	(109)
Net Cash Provided by (Used In) Operating Activities	\$ (340,641)	\$ 621,310
Noncash operating, capital, and investing activities:		
During the year there were no noncash activities.		

The notes to the financial statements are an integral part to these financial statements.

NOTE 1. NATURE OF ORGANIZATION

The GRSD Sewer Authority (the "Authority") was established by the Townships of New Buffalo, Lake Charter, and Chikaming, and the City of New Buffalo. The City of Bridgman was admitted under a separate agreement in 2004. The Authority was incorporated on October 13, 1971 as the Galien River Sanitary District (the "District"), under the provisions of Act 233, Public Acts of Michigan of 1955, as amended. The Authority is governed by a board comprised of six (6) members, with one (1) representative appointed from each of the five (5) constituent municipalities and one (1) independent member elected by the other five (5) members. The Authority was formed to operate, maintain, administer, and manage a sewage collection and disposal system pursuant to Act 185, Public Acts of 1957, as amended, for the benefit of the constituent municipalities.

The GRSD Authority operates on 2 million gallons per day (MGD) sanitary sewage treatment plant and site to serve all of the local units, who have capacity rights and share the cost of the plant. In November 2004, the board approved the issuance of bonds and a 1.012 million gallon expansion. Following completion of the expansion the capacity rights will be allocated as follows:

	Final Expansion
Lake Charter Township	16.6%
City of New Buffalo	21.6%
Chikaming Township	28.6%
New Buffalo Township	16.6%
City of Brigman	16.6%
	<u>100.0%</u>

The Authority has the power to carry out the purposes of the plant and to acquire private property by purchase, construction, lease, gift, devise or condemnation and may hold, manage, control, sell, exchange or lease such property. The Authority may enter into a contract or contracts providing for the acquisition, purchase, construction, improvement, enlargement, extension, operation and financing of a sewage disposal system. They may issue negotiable bonds, secured by the contractual full faith and credit pledges of each contracting municipality. The Authority is also responsible for establishing rates charged to the governmental units. The separate governments are responsible for establishing and collecting their own charges from the residents and other users within their district.

NOTE 1. NATURE OF ORGANIZATION, CONCLUDED

The Authority's financial statements include the accounts of all the Authority's operations. The criteria for including organizations as component units within the Authority's reporting entity, as set forth in section 2100 of the Governmental Accounting Standards Board's ("GASB") *Codification of Government Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Authority hold the corporate powers of the organization
- The Authority appoints a voting majority of the organization's board
- The organization has the potential to impose a financial benefit/burden on the Authority
- There is fiscal dependency by the organization on the Authority.

Based on the aforementioned criteria, the Authority has no component units.

The Authority has implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34"). The Authority's financial statements, as a result of GASB 34 are as follows:

- A Management's Discussion and Analysis ("MD&A") section providing analysis of the Authority's overall financial position and results of operations has been included.
- Basic financial statements prepared using the full accrual accounting for all of the Authority's activities have been provided.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Authority also applies Financial Accounting Standard Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

A. Fund Accounting

The Authority uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Authority's functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority has only one fund, a proprietary fund.

Proprietary (Enterprise) Fund

This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expensing including depreciation) of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**B. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The proprietary fund uses the accrual basis of accounting.

Revenues: Exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Expenses – Expenses are recognized at the time they are incurred.

C. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Authority considers all highly liquid investments available for current operations with an original maturity of three (3) months or less to be cash equivalents.

D. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the current year, are recorded as prepaid items using the consumption method.

E. Inventories

Inventories, not held for resale, are accounted for on a purchase basis. Under the purchase method, inventories are treated as expenditures when acquired. Accordingly, no asset is reflected in the financial statements.

F. Capital Assets and Depreciation

All capital assets are capitalized at cost using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Costs relating to maintenance and repairs are charged to expense when they do not add value to the assets or materially extend the life, whereas those for renewals and betterments, when significant in amount, are capitalized. All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Equipment	5 – 20 Years
System Improvements	20 – 40 Years
Vehicles	7 – 10 Years

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of (capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.) Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the activity of the proprietary fund. The Authority's operating revenues are sewer usage fees, waste hauling, and services rendered.

I. Contributions of Capital

Contributions of capital in the proprietary fund arise from outside contributions of capital assets, or from grants, or outside contributions of resources restricted to capital acquisition and construction.

J. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Authority and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

L. Liability for Compensated Absences

The Board does not record a liability for compensated absences. The amount which may be accrued is undeterminable at the date of the balance sheets. It is estimated the amount would be immaterial to the presentation of the financial statements as a whole.

M. Budget

The Authority's annual budget is required to be adopted at least thirty days before the beginning of each fiscal year. Certified copies of the budget are submitted to each of the contracting governments. The annual budget includes estimated revenues and costs of operations, maintenance, and repairs of the plant, and development of the municipalities' interceptors for the fiscal year.

NOTE 3. PENSION PLAN

The Authority has established a Money Purchase Pension Plan (the "Plan") under Section 457 of the Internal Revenue Code. The plan allows the employees to make volunteer contributions to the plan up to 15% of eligible compensation.

The Authority contributes 7% - 9% of an eligible employee's compensation to be divided between the plan and an individual life insurance policy. All employees who are employed for at least 1,000 hours during a plan year, have at least one year of service, and are twenty-one years of age are eligible to participate. For 2005 and 2004, total contributions were \$33,824 and \$29,609, respectively.

NOTE 4. DEPOSITS AND INVESTMENTS

The Authority's deposits and investments at December 31, 2005 and 2004, are included on the balance sheet under the following classifications:

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 559,789	\$ 372,777
Certificates of deposits	329,348	414,405
Restricted cash and cash equivalents	500,000	5,435,494
	<u>\$ 1,389,137</u>	<u>\$ 6,222,676</u>

During the year ended December 31, 2005, the Authority adopted GASB No. 40, *Deposits and Investment Risk Disclosures*. The modified disclosures required by GASB No. 40 are reflected below.

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rate within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated several banks for the deposit of its funds. The board follows policies in accordance with Public Act 196 of 1997, and has authorized investments as allowed by the state statutory authority as listed above. The Authority's deposits and investments are in accordance with statutory authority.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year-end, the Authority had \$977,802 of bank deposits (checking) that were uninsured and uncollateralized. The Authority believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as result of rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270 day maturity. At year-end, the Authority had no such investments.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices, and had no investments at year-end.

NOTE 5. RECEIVABLES AND PAYABLES

Receivables consist of accounts (fees) and are considered collectible in full, while payables are for normal trade expense. Both are summarized as follows:

	<u>2005</u>	<u>2004</u>
Accounts Receivable:		
Charges for services	\$ 195,557	\$ 212,654
Accounts Payable:		
Trade	\$ 92,887	\$ 620,630

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>Balance at 1/1/2005</u>	<u>Additions</u>	<u>Disposals/ Reclass</u>	<u>Balance at 12/31/2005</u>
Assets not being depreciated:				
Construction-in-progress	\$ 5,534,353	\$ 4,376,647	\$ -	\$ 9,911,000
Capital assets being depreciated:				
Equipment	\$ 418,596	\$ 200,572	\$ -	\$ 619,168
Sytem Improvements	4,171,765	-	-	4,171,765
Vehicles	133,599	17,113	(26,884)	123,828
Subtotal	\$ 4,723,960	\$ 217,685	\$ (26,884)	\$ 4,914,761
Accumulated Depreciation:				
Equipment	\$ 215,261	\$ 29,417	\$ -	\$ 244,678
Sytem Improvements	625,637	104,712	-	730,349
Vehicles	94,250	11,125	(26,884)	78,491
	\$ 935,148	\$ 145,254	\$ (26,884)	\$ 1,053,518
Net capital assets being depreciated	\$ 3,788,812			\$ 3,861,243
Net capital assets	\$ 9,323,165			\$ 13,772,243

Depreciation expense of \$145,254 was charged directly to operations.

The Authority had commitments as of December 31, 2005 of approximately \$500,000 for the completion of the plant expansion.

NOTE 7. BRIDGMAN AGREEMENT

The City of Bridgman, an existing customer of the Authority, was admitted as a fifth constituent member of the Authority. As part of the buy in agreement, the City of Bridgman agreed to the following contributions:

- One half the estimated cost of expansion (\$3,068,461)
- \$75,000 contribution for administration
- \$45,450 contribution to the main plant
- \$1,004,550 contribution for interceptors

NOTE 8. CONDUIT DEBT

On September 24, 2004, the GRSD Sewer Authority issued General Obligation Limited Tax Bonds for the design, acquisition, construction, and equipment improvements for expansion of the plant.

The Authority has contracted with the Cities of Bridgman and New Buffalo and the Township of New Buffalo to finance their respective portions of the project. Chikaming and Lake Charter Townships used funds on hand to pay their respective portions of the project.

The proceeds of the debt were allocated in the following proportions:

Bridgman City	41.10%
New Buffalo City	19.38%
New Buffalo Township	39.52%

The bonds are being issued pursuant to the provisions of Act 233 and resolutions adopted by the Authority and the Contracting Municipalities. The Bonds are issued in anticipation of and are payable solely from certain contractual payments to be made by the Contracting Municipalities to the Authority. The municipalities have pledged their limited tax, full faith, and credit for the payment of their respective proportion. The Authority has irrevocably pledged such payment against the principal and interest on the Bonds. The Bonds are not general obligations of the Authority and the Authority has no taxing power.

As of December 31, 2005, the total amount of outstanding conduit debt is \$8,090,000.

NOTE 9. WEESAW TOWNSHIP AGREEMENT

The Authority entered into a twenty year agreement with Weesaw Township (the "Township") to provide sewage treatment services for wastewater originating in the Township. The Authority agreed to provide up to a maximum amount of 100,000 gallons per day. The Township shall, at its own expense, construct, establish, maintain, repair and own a sewer main including lift stations or other equipment connecting into the Chikaming Township system. The agreement may be terminated after two years or more with a written notice, and at any time after the first fifteen years of the agreement term. The agreement only applies to the phase 1 of the construction regarding the tie-in by the Township into the system. Any additional sewer construction shall require an amendment to the agreement. At December 31, 2005, \$3,257 of fees was received.

NOTE 10. UNION

The employees have ratified a vote authorizing the International Union of Operating Engineers, Local 324, to represent them for purposes of Collective Bargaining. A three (3) year agreement was approved for January 1, 2006 through December 31, 2008.



ACCOUNTANT'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
GRSD Sewer Authority

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the GRSD Sewer Authority's basic financial statements. The following schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Schaffer & Layher
May 5, 2006

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA

GRSD SEWER AUTHORITY

SCHEDULE OF NET ASSETS FOR OPERATIONS AND CAPITAL ACTIVITY
DECEMBER 31, 2005
(with comparative totals for 2004)

	Operations	Capital Projects	2005	2004
Assets				
Current assets:				
Cash and cash equivalents	\$ 395,043	\$ 164,746	\$ 559,789	\$ 372,777
Certificates of deposit	-	329,348	329,348	414,405
Accounts receivable	180,929	14,628	195,557	212,654
Due from other fund	-	54,240	54,240	87,538
Prepaid insurance	3,236	-	3,236	3,965
Total current assets	\$ 579,208	\$ 562,962	\$ 1,142,170	\$ 1,091,339
Restricted assets:				
Cash and cash equivalents	\$ -	\$ 500,000	\$ 500,000	\$ 5,435,494
Capital Assets	\$ -	\$ 13,772,243	\$ 13,772,243	\$ 9,323,165
Total Assets	\$ 579,208	\$ 14,835,205	\$ 15,414,413	\$ 15,849,998
Liabilities:				
Accounts payable	\$ 39,350	\$ 53,537	\$ 92,887	\$ 620,630
Due to other fund	54,240	-	54,240	87,538
Payroll taxes payable	1,985	-	1,985	1,657
Total Liabilities	\$ 95,575	\$ 53,537	\$ 149,112	\$ 709,825
Net Assets				
Invested in capital assets	\$ -	\$ 13,772,243	\$ 13,772,243	\$ 9,323,165
Restricted for capital purposes	-	500,000	-	5,435,494
Unrestricted	483,633	509,425	993,058	382,514
Total Net Assets	\$ 483,633	\$ 14,781,668	\$ 15,265,301	\$ 9,705,679
Total Liabilities and Net Assets	\$ 579,208	\$ 14,835,205	\$ 15,414,413	\$ 10,415,504

See accompanying notes and auditor's report on supplementary information.

GRSD SEWER AUTHORITY

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR OPERATIONS AND CAPITAL ACTIVITY

DECEMBER 31, 2005

(with comparative totals for 2004)

	<u>Operations</u>	<u>Capital Projects</u>	<u>2005</u>	<u>2004</u>
Operating Revenue				
Sewer User Fees:				
City of New Buffalo	\$ 311,881	\$ 10,067	\$ 321,948	\$ 301,872
Chikaming Township	311,595	10,148	321,743	246,809
New Buffalo Township	104,493	3,503	107,996	125,409
Lake Charter Township	269,700	8,862	278,562	260,352
City of Bridgman	220,557	7,265	227,822	217,467
Weesaw Township	3,257	-	3,257	5,239
Other Fees:				
Waste hauling	71,214	-	71,214	61,286
Services rendered	64,292	-	64,292	70,000
Total operating revenues	<u>\$ 1,356,989</u>	<u>\$ 39,845</u>	<u>\$ 1,396,834</u>	<u>\$ 1,288,434</u>
Operating Expenses				
Salaries and wages	\$ 462,821	\$ -	\$ 462,821	\$ 440,313
Payroll taxes	36,222	-	36,222	33,865
Employee benefits	249,763	-	249,763	210,255
Depreciation	-	145,254	145,254	143,472
Office supplies	1,801	-	1,801	3,138
Operating supplies	72,864	-	72,864	59,206
Professional fees	16,512	-	16,512	15,837
Legal	3,864	-	3,864	471
Board fees	4,620	-	4,620	3,300
Contractual services	53,995	-	53,995	47,591
Communications	15,991	-	15,991	18,304
Training and transportation	2,827	-	2,827	1,668
Insurance and bonds	62,775	-	62,775	69,792
Utilities	185,882	-	185,882	147,618
Equipment and sewer repairs	45,973	-	45,973	70,414
Vehicle repairs	6,788	-	6,788	5,787
Uniforms	4,648	-	4,648	3,690
Miscellaneous	540	-	540	407
Total operating expenses	<u>\$ 1,227,886</u>	<u>\$ 145,254</u>	<u>\$ 1,373,140</u>	<u>\$ 1,275,128</u>
Net operating income (loss)	<u>\$ 129,103</u>	<u>\$ (105,409)</u>	<u>\$ 23,694</u>	<u>\$ 13,306</u>
Non-operating income (expenses):				
Intra-fund transfers	\$ (54,240)	\$ 54,240	\$ -	\$ -
Sale of fixed assets	1,415	-	1,415	-
Interest income	7,719	92,300	100,019	164,598
Total non-operating income (expense)	<u>\$ (45,106)</u>	<u>\$ 146,540</u>	<u>\$ 101,434</u>	<u>\$ 164,598</u>
Change in net assets	<u>\$ 83,997</u>	<u>\$ 41,131</u>	<u>\$ 125,128</u>	<u>\$ 177,904</u>
Net Assets, Beginning of Year	<u>399,636</u>	<u>14,740,537</u>	<u>15,140,173</u>	<u>14,962,269</u>
Net Assets, End of Year	<u><u>\$ 483,633</u></u>	<u><u>\$ 14,781,668</u></u>	<u><u>\$ 15,265,301</u></u>	<u><u>\$ 15,140,173</u></u>

See accompanying notes and auditor's report on supplementary information.



May 5, 2006

To the Board of the
GRSD Sewer Authority
New Buffalo, MI

In planning and performing our audit of the financial statement of GRSD Sewer Authority (the "Authority") for the year ended December 31, 2005, we considered the Authority's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control structure and its operation that we consider opportunities for strengthening internal controls and operating efficiency.

CURRENT YEAR COMMENTS:

We have not issued any formal comments.

PRIOR YEAR COMMENTS:

1). Review Government Accounting Standard Board ("GASB") Statement #40-Deposit and Investment Risk Disclosures.

We continue with our prior comment to have the authority review their investment policy and determine all common risk areas are identified and the appropriate level of risk for each area is quantified.

2). Adopt Credit Card Use Policy

The authority has properly addressed this comment and adopted a proper policy.

The report is intended solely for the information and use of the GRSD Sewer Authority management, and others within the Authority, and is not intended to be and should not be used by anyone other than these parties.

We appreciate the courtesy and cooperation extended to us by you and members of the Authority during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

A handwritten signature in black ink that reads "Schaffer & Layher". The script is cursive and fluid, with the ampersand clearly visible.

Schaffer & Layher, PLLC
St. Joseph, MI

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA